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Corporate Manipulation of Energy Supplies Are the Root Cause of Energy Crisis:

The Problem

Escalating energy costs have almost no correlation with supply and demand. Adequate capacity to supply our current energy needs is and has always been plentiful within the energy markets. Newly formed deregulated energy companies are creating an artificial shortage and reaping tremendous profits while doing so.

A leading energy journal, *Public Utilities Fortnightly* published an economics article that analyzed the possible causes of California electricity price spikes in the summer of 2000. This economic paper, using real data, revealed a broad pattern of intentional withholding of generation.

> "The bottom line is straightforward -- the California market was characterized by large, enduring deviations from traditional utility practice. Generators did not generate. Peakers did not peak. Emergencies appeared to lack solid justification. All of the evidence is consistent with a major, sustained exercise of market power"

This market manipulation is possible because deregulation at the retail and wholesale level has left major corporations free to game the system resulting in artificial shortages. This has left consumers with high prices and ensured energy corporations with high profits.

Increased Profits for Major California Power Suppliers ($ million)

Company	**1999**	**2000**	**% Change**
Williams Companies	$221	$832	276%
Calpine Corporation	$95	$323	240%
Dynegy	$146	$452	210%
AES Corporation	$228	$657	188%
Arizona Public Service	$127	$307	141%
Reliant Energy	$528	$819	55%
Enron Corporation	$893	$1,266	42%
Duke Energy	$1,507	$1,776	18%
Southern Company	$1,276	$1,313	3%
Total	**$5,022**	**$7,745**	**54%**

Source: Published company financial disclosure forms analyzed by Public Citizen.

The California problem is not unique. In New England, a similar pattern of withholding generation exists. A report by Synapse Energy Economics revealed that in the first 12 months of the wholesale generating market in New England, unexplained generator outages increased by 47%. These outages correlated with 76% of the highest cost power in peak time periods.

The natural gas market is also being manipulated. The California Public Utility Commission (CPUC), the state regulator charged with protecting consumers, filed a complaint at the Federal Energy Regulatory Commission (FERC). CPUC is seeking to void a natural gas transmission contract that permits one company to dominate the transmission of natural gas into California. The FERC has refused to protect the consumer and permitted a monopolistic transmission operator to charge exorbitant prices. CPUC has estimated that these unjust and unreasonable rates will cost California natural gas and electricity consumers more than $100 million.

The Progressive Caucus Solution:
Wholesale Cost-based Pricing with Refunds

In 1935, the Federal Power Act regulated wholesale electricity prices and provided for refunds if unjust or unreasonable rates were found. In 1938, the Natural Gas Act, regulated wholesale natural gas prices and provided for refunds if unjust or unreasonable rates were found. Since the late 1970s, these laws have been methodically dismantled leaving little federal price regulations to protect consumers.

However, energy prices are easily manipulated as production and delivery system are complex with ample opportunity to extract absorbent prices from an unfair market. Cost-based rates for wholesale electricity, natural gas, heating oil should be established to protect consumers from unjust and unfair prices. Cost based rates allow utilities to recover the cost of their investment and operations while also allowing a reasonable profit. This is not a price cap— the Federal Energy Regulatory Commission (FERC) sets prices based on a specific, professional rationale. Establishing cost-based rates ensure adequate supply is available and removes the profit incentive from shorting the market.

The rates should be set retroactively to the beginning of 2000. Refunds will be issued to families and businesses who have racked up incredible debt in 2000 and 2001, paying the unreasonable and unjust charges that the energy producers, generators and wholesalers inflicted.

The Progressive Caucus advocates:

- **Requiring FERC to modify FERC Order 888 and 889 to implement wholesale cost-based pricing of electricity to ensure consumers are not gouged. FERC must also require refunds when necessary.**

- **Requiring FERC to modify FERC Order 636 to implement wholesale cost-based pricing of natural gas. FERC must also require refunds when necessary.**

- **Grant FERC new powers to regulate heating oil prices at the wholesale level. Cost-based pricing of heating oil will ensure consumers are protected from heating oil price spikes.**